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C O N F I D E N T I A L SECTION 01 OF 02 KHARTOUM 002557

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TAGS: [PREL](#) [PGOV](#) [PINR](#) [EAID](#) [ETTC](#) [US](#) [SU](#)
SUBJECT: PRESIDENTIAL SPECIAL ENVOY NATSIOS, MEETING WITH
GOSS OFFICIALS ON U.S. SANCTIONS LIFT

Classified By: Classified by CDA Eric Whitaker, Reason: Section 1.4 (b)
) and (d)

11. (U) This is an action request - see para 10.

12. (SBU) Summary: Senior GoSS officials expressed gratitude for the lifting of sanctions on Southern Sudan under the Darfur Peace and Accountability Act of 2006 (DPAA), but fear Khartoum's retaliation for increased restrictions on the North. The GoSS officials urged the U.S. to help them find ways to hedge against punitive economic actions by the North, specifically a cut in oil revenues to the South. The GoSS seeks a sanctions impact assessment. End Summary.

13. (C) Several key Government of Southern Sudan (GoSS) officials requested a private meeting with Presidential Special Envoy Andrew Natsios on October 17 to brief him on their views and concerns about the DPAA and the October 13, 2006, Executive Order. GoSS officials at the meeting were the Minister in the Office of the President Dr. Luka Biong Deng; Minister of Finance Arthur Akuien Chol; Minister of Culture, Youth and Sports John Luk Jok; Minister of Information, Radio and Television Dr. Samson Lukare Kwaje; Minister of Labor, Public Service and Human Resource Development David Deng Athorbei; and Under Secretary in the Ministry of Regional Cooperation Dr. Cirino Hiteng Ofuho.

14. (SBU) The GoSS officials stressed that they understood the importance of the DPAA's additional sanctions against the Sudanese Government as leverage for the Darfur crisis, but said they feared Khartoum's punitive response directed at the South. The GoSS is also concerned that U.S. sanctions could eventually lead to similar UN sanctions. Finally, they worry that sanctions targeting the national government will impact the south, either directly or indirectly, and asked when regulations would be issued to clarify DPAA provisions.

15. (C) The discussion focused on the DPAA's likely adverse impact on Sudan's petroleum industry, as well as money transfers to and from the central bank. The FinMin underscored that the new sanctions would make Sudanese oil less attractive on the global market, which could result in a real or fabricated reason for the North to cut the South's share of the oil revenues. He noted that the fluctuation of oil flows and unfulfilled donor pledges was already contributing to a gap in expected revenues in the South. Additionally, he asserted that the South would be harmed by the DPAA's restrictions on the central bank, through which all Government of National Unity (GNU) funds pass to the Bank of Southern Sudan (BoSS). The DPAA does not recognize the interconnectedness of the two banking systems and the likely negative impact on the South, he argued.

16. (C) The FinMin made a pitch for U.S. help in obtaining long-term World Bank concessionary loans for the GoSS as a

hedge against anticipated retaliations by Khartoum for sanctions. SE Natsios responded that such loans would be difficult to obtain because of likely conditionalities, as well as doubts about the GoSS' constitutional authority to incur such debts. Dr. Luka Biong, who has worked at the Bank, concurred in the difficulty of GoSS obtaining such loans, but said the GoSS had the right to access them. U/S Cirino added that the GoSS clearly supports UNSC Resolution 1706, but needs its friends to assist it if it is adversely affected by its support for a UN peacekeeping deployment in Darfur.

17. (C) In response to the GoSS fears about the consequences of the new sanctions, the SE proposed that the USG do a study on the impact of sanctions on Sudanese oil revenues. Luka Biong asked for an impact assessment that would address specifically: 1) monetary transactions between the central bank and the BoSS; 2) responses to retaliatory behavior of the North; 3) GoSS access to concessionary loans if the oil flows declined; and 4) how the South could capitalize on the economic potential of the sanctions lift. Post agreed to pass the GoSS request for a sanctions assessment to Washington.

18. (C) Separately, ConGen has been approached by a local businessman of Greek ancestry who described Southern Sudanese and foreign business associates who are interested in obtaining U.S. technology to build southern oil refineries. The contact said the GoSS was preparing to sign an MOU with an Italian company for construction of a refinery in Juba. The CG advised that the DPAA expressly prohibits any U.S. person from engaging in transactions relating to the petroleum or petrochemical industries in Sudan, and that such would likely include oil refineries. Moreover, such activities by the GoSS might not be permitted under the

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Comprehensive Peace Agreement.

19. (C) The SE dampened any expectations that the USG would be able to solve this issue for the GoSS, and urged the ministers to exercise discipline in spending, save money in secure international banks, ratchet back expectations, and publicize what the GoSS is doing to keep its financial house in order. The FinMin responded that the GoSS was using the bulk of its annual budget - \$540 million - on the SPLA, but would "cut down as we go," and said that the GoSS was struggling to put aside a reserve for a rainy day. The SPLA expenditures were justified as necessary to unite the people and prevent the NCP from using the South's people against each other. The USAID Director underscored the importance of the GoSS diversifying its economy to avoid oil revenue dependence.

110. (C) Action requested: Post requests Department conduct a study on the impact of sanctions on Sudanese oil revenues as discussed in para 7. Also, Post requests guidance on whether the DPAA also prohibits technology transfers for oil refineries in Southern Sudan as discussed in para 8.

111. (U) SE Natsios did not have the opportunity to clear this message.
POWERS